

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
L-03 H-02 PA-02 PRS-01 /109 W
-----021108 109884 /12

R 020937Z MAR 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 5822
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL HONG KONG
USMISSION OECD PARIS UNN

UNCLAS SECTION 1 OF 2 TOKYO 2917

E. O. 11652: N/A
TAGS: EFIN, JA
SUBJ: FINANCIAL AND ECONOMIC DEVELOPMENTS -- FEB 24-MAR 02

1. SUMMARY: INDUSTRIAL PRODUCTION REMAINS FLAT IN JAN; BUT PUBLIC CONSTRUCTION ORDERS INCREASE SHARPLY. TOKYO CPI RISES 0.6 PERCENT IN FEB FOLLOWING MORE THAN 1 PERCENT INCREASES IN DEC AND JAN. OPPOSITION PARTIES WORK ON JOINT PROPOSAL FOR TAX CUT; OBSERVERS SEE COMPROMISE WITH GOVT AS INCREASINGLY LIKELY. JAPAN'S OFFICIAL INTERNATIONAL RESERVES INCREASE \$343 MIL IN FEB. CALL MONEY RATES REMAIN UNCHANGED IN FEB WHILE DECLINE IN BOND YIELDS SLOWS. AVERAGE PROPENSITY TO SAVE RISES IN FOURTH QUARTER. END SUMMARY.

2. JAPAN'S INDUSTRIAL PRODUCTION REMAINED FLAT IN JAN, BUT PRODUCERS' SHIPMENTS ROSE. ACCORDING TO PRELIMINARY MITI DATA, JAN MINING AND MANUFACTURING PRODUCTION, SEASONALLY ADJUSTED (JEI 212), WAS UNCHANGED FROM DEC, WHEN IT DECLINED MODEST 0.1 PERCENT. PRO-
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DUCERS' SHIPMENTS OF FINISHED GOODS, SEASONALLY ADJUSTED (JEI 239), INCREASED 1.5 PERCENT IN JAN, WITH MUCH OF THIS ADVANCE ATTRIBUTABLE TO A LARGE RISE IN SHIP DELIVERIES. FINISHED GOODS INVENTORIES IN MINING AND MANUFACTURING INDUSTRIES INCREASED 0.2 PERCENT; HOWEVER, THE RATION OF INVENTORIES OF FINISHED GOODS TO SHIPMENTS (JEI 253) DECLINED 1.3 PERCENT FROM PRIOR MONTH. DETAILS OF JAN PRODUCTION SHIPMENTS AND INVENTORIES, PRELIMINARY, REPORTED

TOKYO 2736 NOTAL.

3. NEW CONSTRUCTION ORDERS PLACED BY GOVT AND OTHER PUBLIC AGENCIES ROSE SHARPLY IN JAN TO REGISTER THIRD STRAIGHT MONTHLY INCREASE. HOWEVER, PRIVATE CONSTRUCTION ORDERS DECLINED FOR SECOND STRAIGHT MONTH. CONTINUING RECOVERY IN GOVT AND PUBLIC CONSTRUCTION ORDERS (JEI 324), AFTER SHARP DROP IN OCT 76 DUE TO DELAYS IN JNR AND NTT CONSTRUCTION ORDERS, BROUGHT JAN ORDERS TO OVER 30 PERCENT ABOVE AVERAGE MONTHLY LEVEL FOR CY 76. DESPITE RECENT DECLINES, PRIVATE CONSTRUCTION ORDERS (JEI 325) IN JAN WERE ABOUT 8 PERCENT ABOVE AVERAGE CY 76 LEVEL.

NEW CONSTRUCTION ORDERS, SEASONALLY ADJUSTED
(BIL YEN; PERCENT CHANGE FROM PRIOR MONTH IN PAREN)

	GOVT/PUBLIC	PRIVATE
OCT	170.0 (MIN 24.1)	262.2(2.8)
NOV	219.2(28.9)	278.8(6.3)
DEC	229.0(4.5)	275.6(MIN 1.1)
JAN	278.1(21.5)	266.8(MIN 3.2)

4. TOKYO CONSUMER PRICES INCREASED IN FEB BY 0.6 PERCENT. GOJ OFFICIALS ATTRIBUTED INCREASE IN THE INDEX, WHICH IS NOT SEASONALLY ADJUSTED, TO SHARP PRICE INCREASES FOR FRESH VEGETABLES (UP 17.2 PERCENT) AND FRESH FRUIT (UP 3 PERCENT), PARTLY DUE TO ADVERSE GROWING CONDITIONS. TOKYO CIP EXCLUDING SEASONAL ITEMS WAS UNCHANGED IN FEB FROM PRIOR MONTH. FEB RISE IN TOKYO CIP CAME AFTER MONTHLY INCREASES OF 1.1 PERCENT AND 1.2 PERCENT IN DEC 76 AND JAN 77, RESPECTIVELY. A DECLINE IN CONSUMER PRICES IN MARCH WILL PRESUMABLY BE NECESSARY FOR GOJ TO MEET ITS GOAL OF RESTRAINING ANNUAL CPI INCREASE TO 8.6 PERCENT BY END OF THIS FISCAL YEAR.

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5. LOWER HOUSE BUDGET COMMITTEE DEBATE ON INCOME TAX CUT HAS BEEN SET BACK TO MARCH 7 AND 8. IN OTHER BUDGET-RELATED DEVELOPMENTS, THE OPPOSITION PARTIES, AFTER LENGTHY NEGOTIATIONS, AGREED ON THE DETAILS OF A JOINT PROPOSAL FOR ONE TRILLION YEN PLUS INCOME TAX CUT AS A COUNTER TO THE YEN 353 BIL CENTRAL GOVT TAX CUT PROPOSED BY GOJ. HOWEVER, OPPOSITION FAILED TO REACH AGREEMENT ON MEANS OF FINANCING LARGER INCOME TAX CUT. COMPROMISE BETWEEN LDP AND OPPOSITION PARTIES IS WIDELY EXPECTED BY PRESS AND OTHER OBSERVERS.

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6. JAPAN'S OFFICIAL INTERNATIONAL RESERVES ROSE \$343 MIL IN FEB TO REACH \$16,823 MIL AT MONTH-END. THIS INCREASE FOLLOWS DECLINES TOTALING \$245 MIL IN PRECEDING TWO MONTHS. ALTHOUGH DETAILS OF FEB B/P OBVIOUSLY NOT YET AVAILABLE, MOF OFFICIALS SAY RESERVES ROSE IN FEB DESPITE RESUMPTION OF SMALL NET LONG-TERM CAPITAL OUTFLOWS AFTER APPROXIMATELY BALANCE IN JAN. MOF OFFICIAL EXPLAINED THAT FOREIGN NET PURCHASES OF JAPANESE SECURITIES DECLINED IN FEB AFTER HEAVY NET PURCHASES (OF \$262 MIL) IN JAN. FEB OUTFLOW OF JAPANESE LONG-TERM CAPITAL ALSO SAID TO HAVE EXCEED JAN LEVEL.

7. IN DOMESTIC FINANCIAL MARKETS, UNCONDITIONAL CALL MONEY RATE (JEI 178) WAS UNCHANGED THROUGHOUT FEB, AND HAS REMAINED AT 7.00 PERCENT PER ANNUM SINCE DEC 31, 1976. BOND YIELDS, ON THE OTHER HAND, CONTINUED TO DECLINE IN FEB. TOKYO STOCK EXCHANGE SOURCE SAID DECLINE IN BOND YIELDS THAT HAD CONTINUED SINCE EARLY LAST DEC HALTED AROUND MID-FEB. RECALL THAT COUPON RATES ON CORPORATE BONDS SCHEDULED TO BE LOWERED BY 0.2 PERCENT TO 8.6 PERCENT PER ANNUM,
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EFFECTIVE WITH MARCH ISSUES.

BOND YIELDS TO MATURITY
(YIELDS IN PERCENT; AT MONTH-END)
(JEI 179)

	GOJ	TEL	AND TEL	CORPORATE
	BONDS	BONDS		BONDS
1976 DEC	8.731	8.883		8.788
1977 JAN	8.582	8.596		8.582

FEB 8.503 8.506 8.483

8. AVERAGE PROPENSITY TO SAVE ROSE IN THE FOURTH QUARTER, DESPITE DECLINING IN DEC FOR THE THIRD STRAIGHT MONTH FROM SEP'S HIGH LEVEL. ACCORDING TO HOUSEHOLD EXPENDITURE SURVEY DAA RELEASED BY THE PRIME MINISTER'S OFFICE THIS PAST WEEK, THE SEASONALLY ADJUSTED AVERAGE PROPENSITY TO SAVE FOR EMPLOYED WORKERS (JEI 363), FELL TO 22.3 PERCENT IN DEC BUT LEFT THE AVERAGE PROPENSITY FOR THE QUARTER AT 23.0 PERCENT. THIS LATTER FIGURE WAS UP FROM BOTH THE SECOND AND THIRD QUARTERS OF THIS YEAR (AND THE FOURTH QUARTER 75 FIGURE). WHILE FOURTH QUARTER RESULTS CAN TURN HEAVILY ON THE ACCURACY OF THE SEASONAL ADJUSTMENT FACTOR, ACCUMULATING INDICATIONS OF A PAUSE IN THE ECONOMIC RECOVERY, RUMORS OF A POSSIBLE FUTURE CUT IN POSTAL AND OTHER SAVINGS INTEREST RATES, AND CONCERNS ABOUT PRICE PRESSURES PROBABLY ALL OPERATED TO CONTRIBUTE TO THE RISE IN THE FOURTH QUARTER PROPENSITY TO SAVE.

AVERAGE PROPENSITY TO SAVE
(PERCENT OF DISPOSABLE INCOME)

SEP 24.6	1976 JAN-MAR 23.6
OCT 23.7	APR-JUN 21.8
NOV 23.0	JUL-SEP 22.2
DEC 22.3	OCT-DEC 23.0

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Message Attributes

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Decaption Note:
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Disposition Event:
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Enclosure: n/a
Executive Order: N/A
Errors: N/A
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